

### 8.3 REGIONAL ECONOMIC DEVELOPMENT

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#### PURPOSE OF THE REPORT

This purpose of this report is to propose a Regional Economic Development service delivery model, governance arrangements and indicative funding model for consideration and inclusion in the 2020-2021 Annual Plan and 2021-2031 Long Term Plan consultation process.

#### EXECUTIVE SUMMARY

- The Mayoral Forum tasked the Chief Executives of Northland's four Council's to develop an appropriate business model for consideration by Northlands' Councils following the formal S17A Service Delivery Review completed by Marin Jenkins Consultants in 2017.
- Over the course of 2019 to February 2020, the Chief Executives propose a two staged approach for the future delivery of regional economic development services:
  1. An enhanced Northland Inc. with the District Councils having input into Northland Inc.'s Statement of Expectations and input in the appointment of directors in return for a modest investment that is aligned to the 2020 – 2021 Annual Plan year.
  2. A joint regional CCO, with equal shareholding, governance via a joint committee, with 60% of funding from Northland Regional Council and 40% from the three District Councils, that is aligned to the 2021-2031 Long Term Plan Cycle.
- The proposal considers the level funding by the Northland and District Councils, the timing of public consultation and the consideration of the development of a regional economic development strategy be completed under Northland|Forward Together.
- The proposed regional economic development service delivery model considers:

The structure of each service delivery model.

  - a. The governance features of each model.
  - b. The proposed funding from Northland Regional Council targeting 60% contribution over six years, whilst targeting a 40% funding contribution from the District Councils over six years.
  - c. The advantages, disadvantages and overall benefits.
  - d. An indicative timeline for implementing both stages to the alignment to the 2020-2021 Annual Plan Cycle and the 2021-2031 Long Term Plan Cycle, which will incorporate the special consultation process required to establish a joint regional CCO.
- The Mayoral Forum endorsed their support of the proposal at the Mayoral Forum on the 24th February 2020 and endorsed this standard agenda paper for each Council's consideration.
- The proposed recommendation for the future delivery of regional economic development services is for Northland Regional Council and Whangarei, Kaipara and Far North District Councils' consideration and approval for inclusion and community consultation in the 2021-2031 Long Term Plan.

**RECOMMENDATION**

That Council agree:

1.
  - a) **Stage One whereby the Northland Regional Council share the appointment of directors and input to the Statement of Intent process with Whangarei, Far North and Kaipara District Councils, in return for agreed funding for the 2020-2021 Annual Plan Year.**
  - b) **Far North District Council contribute eighty-two thousand dollars to Northland Inc. for the 2020-2021 Annual Plan Year.**
2. **In principle to the proposal that recommends Northland Inc. be modified to become a joint regional CCO;**
  - a. **with a formal joint committee to provide oversight,**
  - b. **a funding arrangement that Northland Regional Council contribute 60% and Whangarei, Far North and Kaipara District Councils contribute 40% and**
  - c. **this is achieved over a six-year time frame aligned to the 2021-2031 Long Term Plan Cycle and**
  - d. **Public consultation to establish Northland Inc. as a joint regional CCO is included and aligned to the 2021-2031 Long Term Plan consultation process of each Northland Council.**
3. **To support, in principle, the development of a Regional Economic Development Strategy for inclusion in the 2021-2031 Long Term Plan Cycle, subject to scope, resources and funding.**

**BACKGROUND**

Martin Jenkins Consultants undertook the review of Northland Council economic development functions and activities in 2017. The subsequent report highlighted:

- There are no major gaps in the types of economic development activities provided by Northland Councils and Northland Inc.
- There is little overlap of economic development activities.
- There are five key opportunities for the Councils to work more efficiently and effectively together to increase the collective impact.
  - A regional economic development strategy, goals and priorities that would provide clear guidance on the activities that should be delivered in the region.
  - Regional destination marketing.
  - Regional events promotion guided by a regional visitor and events strategy.
  - Maori/Iwi economic development.
  - Greater reach of services into the Far North and Kaipara through a hub and spoke delivery model.

The Martin Jenkins report recommended that Northland Inc. currently a Council Controlled Organisation (CCO) of Northland Regional Council, become a jointly owned CCO, with a joint shareholding across the four Councils and a Joint Committee to provide direction and oversee Northland Inc.'s performance and resourcing.

The Martin Jenkins report highlighted the key benefits of the recommendation are:

- Greater alignment of economic development priorities and outcomes across Councils and Northland Inc.
- Better opportunity to leverage the resources of all to achieve common goals and objectives.
- Minimal disruption to Northland Inc. or Council operations and delivery as a result of the changes.
- Opportunity to implement a hub and spoke business model with presence in the Far North and Kaipara.
- Increased flexibility / agility to being able to make decisions about changes to activities across Councils and Northland Inc. through a joint committee structure.
- Ability for individual Councils to have input into the Expectation of Purpose and Statement of Intent process.
- Ability for individual Councils to have input into the programme of work and projects being delivered by Northland Inc. via the Statement of Intent process.
- Increased opportunity to identify efficiencies in the delivering activities across all Councils and Northland Inc. as a result of increased engagement.

There are key costs and risks associated with the implementation of a jointly owned CCO.

- Time and costs associated with public consultation on the changes to the existing CCO arrangements.
- The legal re-arrangement.
- An increase in staff and elected members time required to develop and agree on priorities with Northland Inc., the Shareholders Agreement, the Joint Committee role and structure, out-put and out-come framework and the performance and reporting framework.
- An increase in Northland Inc. staff to work with individual Councils to achieve the outcomes and outputs determined by the formal Joint Committee.
- Costs with extending Northland Inc.'s services into the districts (set-up and co-ordination costs), although some costs could be minimised by sharing with others.

To date Northland Regional Council and Northland Inc. have implemented recommendations from the Martin Jenkins review regarding the operations of the Investment and Growth Fund, the process for developing the statement of intent, improved reporting and connection with the District Councils. Minimal progress has been made on the five opportunities for Councils to work together.

The Mayoral Forum tasked the Chief Executives to develop an appropriate business model for consideration by all Councils. For clarification, this proposal has not been presented to the Northland Regional Council or Northland Inc. for consideration.

The Chief Executives and senior management held a workshop on the 23<sup>rd</sup> January 2019 and took a fresh approach to developing a regional delivery model, building on the success of Northland Inc. and incorporating the recommendations of the Martin Jenkins Review. The Chief Executives agreed:

- The principles for the development of a model and subsequent report.
- The key drivers and priorities for economic development in Northland.
- The report will recommend a preferred service delivery option to the Mayoral Forum prior to the October Local Body election.

- The new Councils and Mayoral Forum will make any decisions to implement or otherwise, post the October Local Body elections.

A cross- council team was brought together in February 2019, to propose a service delivery model for consideration by all Councils and build on the strengths of Northland Inc. and the recommendations of the Martin Jenkins Review.

The cross-council team undertook a short study of three regional economic entities and arrived at the same conclusions as the Martin Jenkins study, that a joint regional CCO is the most suitable vehicle to deliver a regional service.

The first draft of the Regional Economic Development Service Delivery Options Report was presented to the CEs Forum May 2019 and the Mayoral Forum May 2019. However, the recommendations of the report were left on the table and further work was required.

Several workshops and discussions with the CEs Forum and the Mayoral Forum post October 2019 elections discussed support for regional economic development and the development of a regional economic development strategy.

Key points are:

- The final entity must be stable for performance not to be compromised.
- The CEs to propose a long-term vision regarding funding and representation.
- Commitment from all four Councils to be actively participating and contributing for regional economic development to be successful.
- Commitment to one economic development services agency in Northland.

**DISCUSSION AND NEXT STEPS**

At present, the main economic development services being delivered by Northland Inc. and Northland Councils are:

<b>Delivered by Northland Inc. for the Region</b>	<b>Delivered by Councils for respective districts</b>
Business development, business start-up advisory	Event and tourism promotion - WDC
Promotion of innovation, including the digital enablement plan and broadband extension	Business attraction – industry, developers, regulatory advice
Investment attraction and facilitation including investment in Northland focused events, Provincial Growth Fund infrastructure and district and regional projects	Community Development – Community and district focused support, funding and facilitation
Skills support, provision of support for IGR applications and funding	I-Sites (WDC and FNDC)
Destination marketing and management re international trade and tourism	Provincial Growth Fund initiatives and applications
Industry development and support to major projects and TTNEAP projects	

At this point in time, further work would be required to determine what functions and services would be undertaken by the joint CCO and the District Councils.

I.e. whether (any) district focused development, event and tourism promotions, PGF and funding applications would be better being a function of the joint CCO.

Northland Inc. has recently commissioned two studies to be completed regarding:

- Feasibility of increasing the level of delivery of Northland Inc. to the Far North and West Coast.
- Maori Economic Development.

A new Board is in place chaired by Sarah Peterson and Murray Reade joined Northland Inc. as Chief Executive in 2019, with a wealth of leadership experience, tourism sector experience and a strong history of working with community and stakeholders.

Given the combination of the newly appointed Northland Inc. Board of Directors and a recently appointed Chief Executive for Northland Inc. coupled with new Councils and elected members and the economic impact of post Covid-19, it is time to consider what the future delivery of regional economic development services has the potential to be over the next three to four months in order to meet the 2021/2031 Long Term Plan timeframes.

Post the 2019 local government elections, progress has focused on:

- The equitability and affordability of financial contributions from the District Councils.
- Shareholding and Voting Rights
- Timeframes and 2021-2031 Long Term Plan consultation
- Risks, obstacles and issues from preventing progress

The proposal builds on the Martin Jenkins recommendation that a joint regional CCO is the most suitable business model to deliver economic development services to Northland. Not only does this follow best practice, but would also likely gain support from Central Government, where government would be communicating at a regional level and Northland effectively harnessing central government funding and support.

### **Funding of Northland Inc.**

Currently Northland Regional Council fund Northland Inc. and the Investment Growth Reserve Fund (IGR) through their commercial activities and Whangarei District Council fund a cash contribution of circa \$105,000 per annum plus up to one FTE that is seconded to Northland Inc. Far North and Kaipara District Council currently do not make any contribution but have done so in the past.

The proposal recommends Northland Regional Council continue to fund Northland Inc. and the IGR in line with the level of funding committed in their 2018-2028 Long Term Plan. From the commencement of the 2021-2031 Long Term Plan Cycle the District Councils will progressively build up their contribution until it represents 40% of the total funding allocation made to these two functions.

The IGR was established in 2011-2012 to help fund economic projects that will increase jobs and economic performance in Northland. The reserve is financed by income from Northland Regional Council's various investments and potential projects are scoped and assessed by Northland Inc.

The objective of the IGR is to provide a fund that enables Northland Regional Council make strategic investments that lift the long-term growth of Northland. Allocations from the fund must be one of the following:

- Operational expenditure for Northland Inc.
- Project development
- Enabling investment

The option of the District Councils building their contribution to 40% over a three-year time period was deemed unaffordable in such a short timeframe, despite their being less risk if the transition is completed in one Long Term Plan cycle. To ease the impact of economic development expenditure on the District Councils a six-year transition is recommended.

**Joint Regional CCO – Aligned to the 2021-2031 LTP and a transition period of six years**

- Target Funding: NRC funding 60% of Northland Inc. and the IGR from commercial activity and the balance of 40% would be funded by the District Councils
- The methodology for the proportion of funds that will be funded from each Council was also given further thought. The proposed funding ratio for the District Councils is based on population numbers in each district.

Council	Current Population	Percentage of Contribution
Whangarei District Council	91,400	51%
Far North District Council	64,400	36%
Kaipara District Council	23,200	13%

These proportions will be reviewed at each Long-Term Plan Cycle. Based on the above table the proposed contribution required from each Council over a six-year period would be:

Year	NRC	51%	36%	13%	Total
		WDC	FNDC	KDC	
Population		91400	64400	23200	179000
2021/22	89%	6%	4%	1%	100%
2022/23	80%	10%	7%	3%	100%
2023/24	74%	13%	9%	3%	100%
2024/25	68%	16%	12%	4%	100%
2025/26	64%	18%	13%	5%	100%
2026/27	60%	20%	14%	5%	100%

Whilst Northland Regional Council will maintain funding Northland Inc. per their current Long-Term Plan commitments, it's proposed the three District Councils contribute a further 40% over the six-year transition period. The indicative share of financial contribution would be:

Year	NRC	WDC	FNDC	KDC	Total
2021/22	\$1.811M	\$117K	\$82K	\$29K	\$2,082M
2022/23	\$1.852M	\$241K	\$169K	\$61K	\$2,357M

2023/24	\$1.937M	\$349K	\$246K	\$89K	\$2,632M
2024/25	\$1.984M	\$475K	\$335K	\$121K	\$2,910M
2025/26	\$2.033M	\$587K	\$413K	\$149K	\$3,191M
2026/27	\$2.084M	\$709K	\$500K	\$180K	\$3,473M

The six-year transition period represents two LTP cycles and two election cycles. Maintaining political support through this transition period, whilst progressively increasing financial contributions, may be challenging and does represent a risk to the longevity of the model. However, as discussed earlier, a three-year transition period was deemed unaffordable by the District Councils.

The allocation of the total level of funding provided from the District Councils and Northland Regional Council between Northland Inc. operations and the IGR will be determined by requirements of the Northland Inc.’s Statement of Intent and supporting budgets, with the differences being transferred to the IGR and available to support the priorities and projects agreed by the four Councils.

**Shareholding and Governance Arrangements**

The Martin Jenkins report recommends establishing a formal joint committee across the four Councils to provide direction to Northland Inc. and jointly recommend Northland Inc’s Board appointments. The report also recommends establishing a Shareholders Agreement between the four Councils to govern the relationship and developing a joint Statement of Intent and service agreements with individual Councils. Further consideration has been given to options for shareholding and voting rights based on:

- **Weighted Rights Model Based on the level of financial contribution from each Council**

This is where a formal joint committee is established, and the representation and votes are based on the level of financial contribution.

	Formal Joint Committee Membership	NRC	FNDC	WDC	KDC
Years 1 - 3	7 members	4	1	1	1
Years 4 - 6	11 members	6	2	2	1

With this model Northland Regional Council retains the deciding vote as the District Councils contribute 40% of the financial contribution and Northland Regional Council 60%.

Or in the alternative

- **Consensus Model: Based on equal shareholding across the four Councils**

This is based on the shareholding being equal i.e. each Council having an equal shareholding in Northland Inc. and the formal joint committee membership is made up of one representative from each Council (one vote).

Decision making is to be consensus building. In the event that consensus cannot be reached then a vote would be taken with votes weighted proportional to the funds provided in that particular year.

The proposed governance model features are:

Equal shareholding by Northland Regional Council selling twenty-five shares at one dollar each to Whangarei, Far North and Kaipara District Councils. This will provide the four Councils with an equal shareholding of 25 shares each.
Governance would be via a formal Joint Committee

The Formal Joint Committee would appoint the commercial focused Northland Inc. Board of Directors on merit.
All Councils to contribute and have input through setting the Statement of Expectations regarding, the objectives, priorities, deliverables, performance and reporting framework and outcomes for the region
Allocation of Investment Growth Reserve delegated to the formal Joint Committee. This would enable the District Councils input into the decision making around the allocation of the IGR from the outset.

### **Consultation**

Establishing Northland Inc. as a joint regional CCO will require public consultation, therefore this is proposed to be aligned with the 2021-2031 Long Term Plan process across the region provided the four Northland Councils give agreement to do so.

### **Obstacles and Sensitivities Preventing Progress**

An assessment has been completed regarding the obstacles and sensitivities preventing progress at an individual Council level.

The main issues are:

- The new entity must have stability to last a decade or more and the need for a secure financial baseline.
- Political buy-in, Councils must agree to the “new” Northland Inc. being the provider of economic development services in Northland.
- The lack of a regional economic development strategy.
- Building trust and stability, monitoring effort and distribution of benefit.
- Equitability by medium term equitable distribution in proportion to contribution.

The proposal addresses each of these issues, either through the business model being proposed, the long-term funding contributions from NRC and the District Councils, the commitment from Northland Councils that the ‘new’ Northland Inc. will be the one organisation that delivers economic development services for the region.

The Councils also have input to the Statement of Intent process via the formal Joint Committee, and the Consensus Voting model promotes building trust. The out-put out-come framework together with the performance and reporting framework enable the monitoring of effort and measurement of the distribution of benefit.

### **Regional Economic Development Strategy**

The Martin Jenkins report highlighted the lack of an overarching regional economic development plan that brings together TTNEAP, NorthlandForward Together, He Tangata, Northland Councils Plans and Northland Inc. priorities. The aim should be for the strategy and plan to be more aspirational about the future of the region and to provide greater direction about how economic development activities will support the future vision.

The development of a regional strategy is estimated to be a two-year process and will require external consultants together with funding and resources from Northland Councils. The development of the strategy should be led by Northland Councils, rather than Northland Inc. and be completed under Northland Forward Together. A scope of work, together with funding and resourcing requirements will need to be completed to inform the 2021-2031 Long Term Plan process.

### **The Future**



The proposed regional joint CCO together with the proposed governance and funding model provides a greater level of stability, where the individual Councils are actively engaged via a joint committee and coupled with the development of a regional economic development strategy that would underpin the objectives, priorities, funding requirements and outcomes to be delivered by Northland Inc.

By converting Northland Inc. into a regional joint CCO it should enable:

- Greater reach of services into the Far North and Kaipara via a hub and spoke model in accordance with contribution, where economic investment is most needed to lift the economy and standard of living for the community.
- Greater engagement and participation of Maori/Iwi. This is a priority for all four Northland Councils.
- Central Government will be communicating with one agency for Northland, and this would likely gain support from Central Government, where government would be communicating at a regional level and Northland Inc. effectively harnessing available central government funding and support.
- The District Councils would have greater control and insight into the monitoring of performance and the distribution of benefit throughout the region. This could be done by: regular meetings between Northland Inc. and the formal Joint Committee, Annual strategy sessions with individual Councils, regular meetings between CEs of Councils and CE of Northland Inc., and overall reporting of progress to Northland Councils.
- There should be greater alignment of economic development priorities and outcomes across Councils and Northland Inc. Even more so with the development of the regional economic development strategy.
- Specialisation/centre of excellence approach regional economic development that could potentially be more attractive.
- Support the Covid-19 state of emergency economic recovery and re-building of the Northland economy.

Some examples of specific tangible benefits associated with increased economic development funding are:

- Greater ability to help councils develop funding applications for projects.
- Development of a regional destination marketing and event strategy.
- Resourcing to champion and improve digital (broadband and mobile phone) connectivity.
- Increased funds in the IGR to be able to allocate as Project Investment co-funding for new initiatives.

The proposal means that there will be a call on resources and funding:

- The conversion of the existing Northland Inc. to a regional joint CCO will require public consultation, but it should have little disruption to Northland Inc. and Council operations. The implementation will require increased resources regarding the governance arrangements i.e.
  - Shareholders Agreement
  - Joint Committee role
  - Performance and reporting framework
  - Output and Outcome framework
- The time and costs associated with public consultation via the 2021-2031 Long Term Plan.
- The costs associated with extending Northland Inc's services into the Far North and Kaipara.

The Martin Jenkins report discusses that the costs and risks are manageable and will not outweigh the benefits of the proposal.

## **Recommendation**

### **1. Stage One – Aligned to the 2020/2021 Annual Plan**

The proposal recommends Northland Inc. should increase its governance participation with the District Councils, in return for a commitment to funding and resourcing.

The proposal recommends:

- Shared appointment of directors by a formal Appointment Board made up of four representatives from NRC and one representative each from WDC, FNDC and KDC.
- Each representative to the Appointment Board will have one vote, thus the majority vote is with NRC.
- Each Council would appoint their representative to the Appointment Board for a term of one year, commencing 1 July 2020.
- WDC, FNDC and KDC would have input into the Statement of Intent process.
- Contribution of funding:
  - Whangarei District Council                      \$105K p.a.
  - Far North District Council                      \$82K p.a.
  - Kaipara District Council                      \$25K p.a.
  - WDC will continue to contribute up to one FTE to Northland Inc.
  - NRC will continue to fund Northland Inc. and the IGR Fund per their current Long-Term Plan

### **2. Stage Two – Regional Joint CCO – Aligned to the 2021/2022 LTP Cycle**

The proposal recommends that Northland Inc. be converted to a jointly owned CCO, overseen by a Formal Joint Committee of council representatives.

The proposal recommends:

- Equal shareholding by NRC selling 25 shares at one dollar each to WDC, FNDC and KDC, providing the four participating Northland Councils with an equal shareholding of 25 shares each.
- Governance via a formal Joint Committee with representation from each of the four Councils, by each Council having one representative.
- Formal Joint Committee to appoint Directors to Northland Inc. based on merit.
- Re-attainment of Northland Inc.'s current policy of rotation for appointment of directors.
- Northland Councils all have input into to the Statement of Intent process via the Joint Committee.
- Allocation of the Investment Growth Reserve delegated to the Joint Committee
- Decision making on the Joint Committee to be made by consensus and failing that by vote proportionally weighted to the funds provided in that particular year.

The proposal recommends funding the regional joint CCO over a transition period of six years, whereby Northland Regional Council maintain funding levels per their 2018-2028 Long Term Plan, and the District Councils increase their funding contributions to a total combined value of 40% over the same period.

The development of a regional economic strategy would better inform the priorities, deliverables and outcomes to be achieved by Northland Inc. The proposal recommends the strategy is

developed under Northland Forward Together and to develop a brief including resources, funding and timeframes for consideration.

The proposal recommends that total funding of Northland Inc. and IGR progresses to \$3.473M by 2026/2027.

Year	NRC	WDC	FNDC	KDC	Total
2021/22	\$1.811M	\$117K	\$82K	\$29K	\$2,082M
2022/23	\$1.852M	\$241K	\$169K	\$61K	\$2,357M
2023/24	\$1.937M	\$349K	\$246K	\$89K	\$2,632M
2024/25	\$1.984M	\$475K	\$335K	\$121K	\$2,910M
2025/26	\$2.033M	\$587K	\$413K	\$149K	\$3,191M
2026/27	\$2.084M	\$709K	\$500K	\$180K	\$3,473M

Note: 2% inflationary adjustment has been applied.

**Timeframes**

An indicative timeline is included in Attachment One, page 2. There are key timeframes that would need to be met regarding:

- Individual Council approval for Stage One funding to be included in the 2020/21 Annual Plans.
- Individual Council approval to support Stage Two, the development of a regional economic development strategy and the required funding go to each Council for their approval to be included in the 2021-2031 Long Term Plan consultation process.
- The 2021-2031 Long Term Plan consultation process.
- Planning for the transition and have all preparation in plans to implement prior to July 2021 (Subject to consultation and individual Council adoption).

**Next Steps**

Following support by the Mayoral Forum at their meeting on the 25<sup>th</sup> May 2020, discussion with Northland Inc. and Northland Regional Council is underway.

Each of the District Councils will present to their respective Councils’ a standard agenda paper that has been prepared and endorsed by the Mayoral Forum at their meeting on the 25<sup>th</sup> May 2020.

Each Council is to consider the merits of the proposed service delivery model and the development of a regional economic development strategy, funding and resourcing for inclusion in the 2021-2031 Long Term Plan and Consultation process.

**FINANCIAL IMPLICATIONS AND BUDGETARY PROVISION**

The draft 2020-2021 Annual Plan budget provides for up to a \$90,000 contribution to Northland Inc.

All Northland Councils will need to agree to the proposal to modify Northland Inc. to a regional joint CCO and inclusion in the 2021-2031 Long Term Plan consultation process. If all four Northland Councils do agree to the proposal then FNDC will need to include the following investment into the draft 2021-2031 Long Term Plan.

The rating implications for the proposal are:

Year	Proposed FNDC Financial Contribution	Impact on Rates
2021-2022	\$82,000	0.10%
2022-2023	\$169,000	0.21%

2023-2024	\$246,000	0.31%
2024-2025	\$335,000	0.42%
2025-2026	\$413,000	0.52%
2026-2027	\$500,000	0.63%

If the proposal is successful and all four Northland Councils approve the modification of Northland Inc. following the 2021-2031 Long Term Plan consultation process, there needs to be commitment that all economic development activity for the region is delivered by Northland Inc. rather than the District Councils.

The above proposed financial contributions would need to be offset against any “savings” from within the organisation as FNDC would no longer be delivering the economic development function.

## **ATTACHMENTS**

- 1. Attachment One - Regional Economic Development on a Page June 2020 - A2895990**